FINANCIAL

HYDRO-ELECTRIC INQUIRY COMMISSION

(HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO)

Reports on investigation of account

REPORT ON INVESTIGATION OF ACCOUNTS
OF
THOROLD SYSTEM
DATED NOVEMBER 29, 1922

Price, Waterhouse & Co.
ROYAL BANK BUILDING
TORONTO, ONT., CANADA

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GREAT BRITAIN.

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W. B. PEAT & CO.

ROYAL BANK BUILDING
TORONTO

November 29, 1922.

W. D. Gregory, Esq., Chairman,
Hydro-Electric Inquiry Commission,
Toronto, Ontario.

Dear Sir:

THOROLD SYSTEM

In accordance with your instructions we have made a general investigation of the accounts and records of the Thorold System, owned and operated (at its own risk) by the Hydro-Electric Power Commission of Ontario, and we have prepared therefrom and submit herewith the following Exhibits:

I Comparative Balance Sheets
II Operating Accounts
III Excerpts from Agreement between James Battle and the Hydro-Electric Power Commission of Ontario
IV Excerpts from Agreement with the Municipal Corporation of the Town of Thorold

SCOPE OF INVESTIGATION

The books and accounts of the Hydro-Electric Power Commission of Ontario have been audited by Mr. G.T. Clarkson, F.C.A. of Messrs. Clarkson, Gordon & Dilworth, from the commencement of the System on December 1, 1918 to October 31, 1921, therefore it was considered that our investigation should be limited to a general review of the accounts and to an inquiry into such questions of accounting principle as came to our attention.

HISTORY AND ORGANIZATION

Under an Agreement dated October 1, 1918, which was approved by Order-in-Council, dated October 23, 1918, the Hydro-Electric Power

Commission of Ontario acquired the property and assets of what was known as the "Battle" System, from James Battle of Thorold, for a consideration of $100,000.00. Excerpts from the Agreement are shown on Exhibit III. The Commission issued in payment of these properties $100,000 Four Per Cent.Forty Year Gold Debentures, dated December 1, 1918, which were guaranteed by the Province of Ontario, as stated in the Order-in-Council, of which the following is a copy:

"Upon consideration of the report and recommendation of the Hydro-Electric Power Commission of Ontario dated 2nd October 1918, and upon the recommendation of the Honourable the Attorney General, the Committee of Council advise that pursuant to Clauses (g) and (h) of Section 8 of The Power Commission Act, Chapter 39, R. S. O. 1914, as enacted by Section 3 of The Power Commission Act 1917, Chapter 20, 7 George V., the said Hydro-Electric Power Commission of Ontario be authorized to purchase, upon being satisfied as to the title of the same, the property, assets, and undertakings of James Battle of the Town of Thorold, in the County of Welland, as provided in the annexed agreement, for the sum of One hundred thousand dollars ($100,000), and to issue in payment of the said purchase price, forty-year bonds of the Commission, bearing interest at the rate of four per cent (4%), and for the aforesaid purposes to enter into and execute the said annexed agreement.

The Committee further advise that in accordance with the said report and recommendation, and pursuant to Section 14c of The Power Commission Act, Chapter 39, R.S.O. 1914, as enacted by Section 5 of The Power Commission Act 1917, Chapter 20, 7 George V., Your Honour do agree, on behalf of the Province of Ontario, to guarantee the payment of the principal and interest of the said bonds.

And the Committee further advise that pursuant to the said Section 14c of the Power Commission Act, Charles Hood Sproule, Assistant Treasurer of Ontario, be designated as the officer to sign the said guarantee on each of the above mentioned bonds on behalf of the Province of Ontario, such guarantee to be in the form following:

By virtue of powers conferred by the Legislature of the Province of Ontario, Canada, the Province of Ontario hereby guarantees to the holder of the within bond for the time being, and to the holder for the time being of any of the coupons attached thereto, due payment of the principal of the within debenture and of the interest thereon, according to the tenor of the said debenture and of the coupons attached thereto."

The report referred to in the Order-in-Council bears date of

Consideration of debents employed the property and assets of what was known as the "Eastern Group", from Jesse Smith of Toronto, for a consideration of $[illegible]. Accounts from the Agreement are given on Exhibit XII. The Consideration issued in payment of these properties $100,000 Open Per Cent Twenty Year Bond Debentures, dated December 1, 1912, which were guaranteed by the Province of Ontario, as stated in the Order-in-Council, of which the following is a copy:

"Upon consideration of the report and recommendation of the Honorable Treasurer, Twenty Thousand of Bonds dated 1st October 1912, are upon the recommendation of the Honorable the Attorney General, the Executive of Council advise that authorized to guarantee (a) and (b) of Section 8 of the Ontario Conciliation Act, chapter [illegible], as amended by section 2 of the Ontario Conciliation Act 1912, chapter [illegible], section 7 thereof, the said Ontario Electric Power Association of Toronto be authorized to purchase upon behalf aforesaid on the 1st day of the same, the property, business, and undertaking of the Ontario Electric Power Association of Toronto, in the Town of Toronto, in the County of York, in accordance with the agreement, for the sum of one hundred thousand dollars ($100,000), and be issued in payment of the said sum one prime, twenty-year bonds of the Conciliation Electric Power Association of the said Toronto, bearing interest at the rate of five per cent per annum, payable half yearly, and the said bonds shall be guaranteed by the Province of Ontario and shall be issued and delivered to the said vendor."

The Conciliation Electric Power Association, in accordance with the said Act, and in compliance with the agreement, and pursuant to section [illegible] of the Ontario Conciliation Act, [illegible] 1913, by unanimous vote of the Board of the Power Association, and [illegible] 1913, by unanimous vote of the Board of the Power Association, [illegible] the Ontario Electric Power Association, on behalf of the Province of Ontario, to guarantee the payment of the principal and interest of the said bonds.

And the Conciliation Electric Power Association, in the said Conciliation Act of the Power Conciliation Act, chapter [illegible] Conciliation, Treasurer of Ontario, be designated as the authorized to sign such guarantee on behalf of the above mentioned Bonds on behalf of the Province of Ontario, such guarantee to be in the form following:

"By virtue of powers conferred on the undersigned by the Conciliation Act, the Treasurer of Ontario, hereby, the Treasurer of Ontario hereby guarantees to the holder of the within bond the payment of the principal and interest of the within bond, according to the tenor of the said guarantee and of the coupons attached thereto."

The report referred to in the Order-in-Council bears date of

October 2, 1918; is addressed to Sir William Hearst, Prime Minister of Ontario, and embodies recommendations, made by the Commission, excerpts from which follow:

> "Mr. Battle has a contract with the Ontario Power Company for power, and in addition to this contract Mr. Battle has an agreement with the Ontario Power Company whereby he receives certain royalties on account of power supplied to the Ontario Paper Company and the Beaver Wood Fibre Company of Thorold, the present value of which royalties we have estimated to be $57,461.00. This agreement also gives Mr. Battle the right to collect similar royalties on any additional power which he may purchase from the Ontario Power Company and sell in the above mentioned districts.
>
> In view of these facts negotiations have been entered into with Mr. Battle with a view to purchasing his distribution system, the value of which has been estimated by our Engineers to be $35,872.41.
>
> We have estimated that the present value of Mr. Battle's plant and system, in addition to the present value of the business and royalties above set out, amounts to approximately $129,274.
>
> We believe that it is in the interests of the Commission, of the municipality of Thorold, and the other municipalities in this district, for the Commission to purchase Mr. James Battle's plant, same to be taken over and paid for by the municipality of Thorold at a later date.
>
> I would therefore recommend that the Commission, on behalf of the municipality of Thorold, be authorized to purchase Mr. James Battle's plant under the Power Commission Act, 7 George V. Section 3."

The contract entered into under date of October 24, 1910, between the Ontario Power Company of Niagara Falls and James Battle, mentioned in the foregoing, was assigned and transferred by James Battle to the Hydro-Electric Power Commission of Ontario under date of October 1, 1918. The contract is in respect of electrical power required in the operation of the distribution system, or any additions or extensions thereto, and extends for a period of 30 years from May 1, 1911. In a supplementary agreement, dated April 29, 1912, between these parties, assigned and transferred on October 1, 1918, modification was made of the original rates payable for electrical

October 6, 1910; in reference to the Utilities Bureau, Irish Minister of Defense, and related correspondence, made by the Commission, excerpts from which follows:

"Mr. Ustick has a contract with the Antrim Power Company for power, and he objects to being confronted by Public Utilities on agreement with the Antrim Power Company charging he receives certain concessions on account of power supplied to the Antrim Power Company and the Power Road Lien Company of Toronto. The general value of which regulations we have evidence to be $1,000.00. This agreement also gives Mr. Ustick the right to assign contracts provided on any contingency which by-day production from the Antrim Power Company and will be the above mentioned electrical.

In view of these facts regulations have been entered into with Mr. Ustick with a view to consolidate his distribution system, the value of which has been estimated by our engineers to be $[illegible].

We have evidence that the present value of Mr. Ustick's plant and system, in addition to the present value of the Antrim and Toronto Power Company are not such, according to engineering [illegible].

To sum up, what it is to the interests of the Commission, of the municipality of Toronto, that the power contractual-ship to Mr. Ustick, for the convenience to producers of Power Utilities plant, when to be taken over and paid for by the municipality of Toronto at a later date.

I would respectfully recommend that the Commission, on behalf of the municipality of Toronto, be asked to authorize the Utility Bureau to make terms and power agreements for [illegible] I [illegible] [illegible]."

The contract mentioned here under date of October 24, 1910, between the Ontario Power Company of Niagara Falls and Mr. Adam Ustick, mentioned in the foregoing, was analyzed and transferred by Jones Utility to the Ontario-Toronto Power Commission of Ontario under date of October 1, 1910. The contract is in regard of electrical power required in the operation of the distribution system, or any additions or extensions thereto, and extends for a period of 20 years from May 4, 1911. In a supplementary agreement, dated April 20, 1910, between these parties, original and transferred on October 1, 1910, modification was made of the original rates payable for electrical

power, as regards added territory, as set forth in the original agreement, to be effective as follows:

Quantity of Horse Power		Agreements	
		Original Rate Per Annum Per H.P.	Supplementary Rate Per Annum Per H.P.
From	To	Original Territory	Added Territory
100	199	$15.00	$15.50
200	299	14.50	15.00
300	399	14.00	14.50
400	499	13.50	14.00
500 or more according to contract		13.00	13.50

Certain territorial limits were fixed in these agreements within which the Ontario Power Company agreed that it would not sell power to any other consumer, except to parties with whom it then had contracts, and to Railway Companies for railway purposes only, unless the demands of such individual consumers should equal, or exceed, 100 horse power, or unless required to do so by law. The agreement further stipulates that -

> "It is definitely understood and agreed that the Power Company shall not exercise its right to sell to any such Company, corporation or individual requiring one hundred horse power or more, except after thirty days' notice in writing to the Purchaser, and after it has rendered the Purchaser such assistance in securing such contract for the Purchaser as may be in its power and as the Purchaser may have requested in writing from the Power Company.
>
> The Purchaser also agrees to pay to the Power Company the actual cost for any such assistance so rendered; and the Purchaser may take over and carry out any contract or contracts hereafter secured, except contracts with Railway Companies, so entered into by the Power Company for the delivery of power in the territory herein specified, if he so elects, upon payment to the Power Company of the total cost of the negotiations relating to the said contract or contracts."

Subsequent to the execution of the agreement between the Ontario Power Company and Mr. Battle, the Power Company entered into contracts, directly, with several companies within the limits prescribed by the original and the supplementary agreements, in respect

power, on remote alone territory, on not first to the original agreement, to be attractive as follows:

Density of home town		Discounts	
From	To	Rate per Annum per h.p.	Rate per Annum per h.p.
		Original Tariffs	Revised Tariffs
100	199	£22.00	£18.00
200	299	18.00	16.00
300	399	14.00	14.00
400	499	12.00	12.00
500 or more inclusive to consumer		12.00	12.00

Certain territorial limits were fixed in these agreements within which the Ontario Power Company agreed that it would not sell power to any other consumer, except in dealing with when it has contracts, and to limited operation for rating purposes only, unless the demands of such individual consumers should exceed, or exceed, 100 horse power, or unless required to do so by law. The agreement further stipulates that -

"It is distinctly understood and agreed that the Power Company shall not extension its right to sell its energy to any other consumer, individual or municipality requiring less than 100 horse power or more, unless after giving notice to writing to the Purchaser, and after it has ascertained the particulars and satisfactory to security upon contract for the transmission thereof by the Purchaser and at the expense and upon terms to be agreed upon between the Power Company.

The Purchaser also agrees to pay to the Power Company the actual cost for any such extensions to consumers and the transmission may take over and during that may subsisted or municipal corporation, except municipalities with Hydro Commission, as contract with the Power Company for the delivery of power to the Hydro Commission municipal. If so as clearly, this agreement to the Power Company at the total cost of the municipalities entitled to the said conductor or contracts."

Subsequent to the execution of the agreement between the Ontario Power Company and Mr. Smith, the Power Company entered into contracts, directly, with several consumers within the limits prescribed by the original and the supplemental agreements, in respect

of which, it was mutually agreed between the Power Company and Mr. Battle that the latter would receive payment as follows:

Company	Basis of Payment To Mr. Battle or His Successor Amount	Date Accepted
Ontario Paper Company, Limited	50 cents per H.P. per annum on the day power 10 cents per H.P. per annum on the night power (upon receipt of payment of power bills by Power Company)	March 20, 1912
Ontario Paper Company, Limited (Temporary Sale of Power)	When and as the bills for this temporary power are paid by the Paper Company, an amount equal to 1.75% of the amount so paid	Jan'y 22, 1914
Beaver Company	25 cents per H.P. per annum payments to be paid upon collection of power bill from Beaver Company	Jan'y 22, 1914

The entire undertaking, including transmission and distribution system, contracts, franchises and goodwill, taken over as at October 17, 1917, was brought into the accounts of the Thorold System in the one amount of $100,000.00, on the following estimated basis:

Present value of Sub-Station and Distribution System	$ 25,872.41
Present worth of capitalized value of Commissions or Royalties receivable on certain Power Contracts	57,500.00
Capitalized value of existing Power Contracts and value placed on sold power available under contract to purchase power	16,627.59
As above	$100,000.00

BALANCE SHEET

CAPITAL INVESTMENT - $101,331.09:

There has been added to the value of $25,872.41, shown above, on Sub-Station and Distribution System, from the inception of the system to October 31, 1921, small additions to Sub-Stations amounting

to $1,331.09, making an aggregate of $37,203.50 at October 31, 1921. The total investment of the System, including the capitalized value of royalties, contracts, etc., is carried on the books as at October 31, 1921, in the sum of $101,331.09. In this connection, it is interesting to note that, at the date just mentioned, the reserves for sinking fund and for renewals, aggregate $66,217.75.

ACCOUNTS RECEIVABLE - $8,907.46:

Accounts Receivable amounting at October 31, 1921, to $8,907.46, as listed below, have since been paid, viz:

Doheny, Quinlan & Robertson, Limited	Thorold	$5,687.20
Public Utilities Commission	"	1,812.96
Provincial Paper Mill, Limited	"	1,009.00
Pilkington Brothers, Limited	"	341.25
Thompson & Son	"	32.06
The Dextrine Company	"	16.66
T. Critelli & Company	"	8.33
Total		$8,907.46

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO - $55,979.20:

In view of the fact that the revenue of this System is collected and deposited in bank, in the general funds of the Commission, the balance of $55,979.20, receivable from the Commission at October 31, 1921, may be said to represent a portion of the funds of the Thorold System in respect of Sinking Fund and Renewals, held by the Commission.

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO - DEBENTURES ISSUED BY THE COMMISSION TO COVER PURCHASE PRICE OF SYSTEM - $100,000.00:

This account of $100,000.00 represents in effect a long term advance made by the Commission to the Thorold System in respect of which, as previously mentioned, the Commission issued bonds representing the

purchase consideration for the Thorold System. A corresponding amount is included as an asset, under the caption of Investments, in the balance sheet of the Hydro-Electric Power Commission and upon consolidation of accounts these two accounts would offset one another. The bonds which are carried on the books of the Commission, as its direct liability to the public, do not appear to be an advance as so construed under the Power Commission Act. According to the terms of the issue no sinking fund provisions are required for the retirement of these securities, but on the books of the Thorold System a reserve has been made for sinking fund, as fully explained below.

RESERVE FOR SINKING FUND - $63,397.96:

Reserve for Sinking Fund, in respect of the $100,000.00 just mentioned, has been made by charges to operations on the following bases:

2.56% (24 year basis, (4% per annum) being the life of Contracts taken over included in the valuation of the business) on	$ 57,500.00
1.06% (40 year basis, (4% per annum) being the life of the Bonds) on	42,500.00
Total	$100,000.00

The sums provided through inclusion in operating costs and from other sources are as follows:

Included in cost of Operations-	
For Provision for Sinking Fund-	
December 1,1918 to October 31,1919	$ 1,758.39
Year ending October 31, 1920	1,918.25
Year ending October 31, 1921	1,932.23
Together	$ 5,608.87
Interest at 4% per annum for above period	220.21
Total	$ 5,829.08
Add- Special appropriation out of surplus to provide Sinking Fund Reserve against valuation in respect of contracts, franchises, and goodwill included in the Capital Investment of the System	57,568.88
Balance October 31, 1921	$63,397.96

While a sinking fund is not required under the agreement of October 1, 1918, relative to the purchase of the property by the Commission, nevertheless the Commission has provided reserves as set forth in the foregoing. At October 31, 1921, the Sinking Fund Reserve had not been invested in securities of the Province. In this connection we quote as follows from the audit report as at October 31, 1921:

> "Under Section 15 of the Act sums received by the Commission from municipal corporations and others on sinking fund account are required to be invested by the Commission in securities of the Province of Ontario, and all interest accruing thereon; and such securities shall be delivered by the Commission to the Treasurer of Ontario as security for repayment of the advances made by the Province to the Commission. As no part of the revenue of the Thorold System was paid to the Commission by municipalities or others for the purpose of meeting sinking fund instalments, the Commission has not invested the sinking funds of the system in securities of the Province of Ontario for delivery to the Treasurer of Ontario."

As at November 9, 1922, the latest date as of which inquiry has been made by us, the entire amount of the sinking fund remained uninvested in securities.

In view of the fact that a standard form of agreement relative to the supply of power is in force between the Commission and the Town of Thorold, providing for payments, by the municipality, into the Sinking Fund, it would appear that the municipality is acquiring an equity, not only in the properties of the Thorold System owned by the Commission, but also in the properties of the generating plant,- the Ontario Power Company - from which the supply of power is obtained, that plant being held in trust for the municipalities in the Niagara System.

In this connection it may be desirable to ascertain the views of the Commissioners of the Hydro-Electric Power Commission of Ontario, as to what disposition of this System may be contemplated, by them since it is at the present time owned and operated by the

Commission at its own risk.

RESERVE FOR RENEWALS - $2,819.79:

The Reserve for Renewals of properties of the Thorold System has been provided by an annual charge of 3.5% on the capital invested in lines and stations together with interest at the rate of 4% on the balance in the Reserve Account. A summary of the Reserve, at October 31, 1921, with a balance of $2,819.79, is as follows:

Period Fiscal Year ending October 31	Provision	Interest	Together
1919 (11 months)	$ 830.07	$ -	$ 830.07
1920	932.57	33.20	965.77
1921	952.12	71.83	1,023.95
Together	$2,714.76	$ 105.03	$2,819.79

The annual rate of 3½% was arrived at on the basis of replacement cost of the physical properties determined as of the date of acquisition (December 1918) and the life and residual values thereof have been estimated by the engineers of the Commission. A statement in this connection is as follows:

Particulars	Estimated Replacement Values as Acquired	Life in Years	Estimated Residual Values		Reserve to be Provided	
			% of Investment	Amount	Total Amount	Annual Provision
Real Estate	$ 460.00	-	100	$ 460.00	$	$
Building	2,793.35	30	4	111.73	2,681.62	47.81
Electrical Equipment	21,901.57	16	20	4,380.31	17,521.26	802.82
Poles	1,003.29	12	-	-	1,003.29	66.77
Wire	3,040.62	50	60	1,824.37	1,216.25	7.97
Transformer	1,985.82	20	20	397.16	1,588.66	63.35
Meters	555.52	20	5	27.77	527.75	17.72
Total	$31,740.17	-	-	$7,201.34	24,538.83	$996.44

($996.44 is 3.14% of $31,740.17)

This method of providing additions on the sinking fund basis is equivalent to a so-called straight line provision of approximately 5%

on the properties for a period of twenty years. That is, while the annual provisions under the two methods differ in amount, either method would accumulate the required sum in approximately that period, provided no charges were made against such accumulations.

OPERATING ACCOUNTS:

The Operating Account of the Thorold System covering the period of eleven months ending October 31, 1919, and the two fiscal years ending respectively on October 31, 1920 and 1921, is attached hereto, Exhibit II. With reference to the interim rate of $22.25 per horse power stated on that Exhibit as charged to the Municipality of Thorold for electrical power, Mr. Clarkson comments in the audit report as at October 31, 1921, as follows:

> "On December 20th, 1920, the municipality of Thorold entered into a contract with the Commission to purchase power at the cost of delivering the same, including operating expenses and interest and provisions for renewal of works and for sinking funds to repay the capital investment therein. In the opinion of the Engineers of the Commission the price to be paid by Thorold as the cost of delivery of such power thereto, should include the proportionate part of the generation and transmission expenses of the Ontario Power Company, from which the supply of power is purchased by the Thorold System and supplied therefrom to the Town of Thorold, which is one of the power customers of the System. Up to the present time the generation and transmission costs of the Ontario Power Company have not been allocated so as to determine the proportionate part payable by the Town of Thorold on the power supplied to it and the Commission has accordingly (in the year ending October 31, 1921) collected from Thorold an interim rate of $22.25 per horse power, which rate is based on the estimates of the Engineers of the Commission and is considered by them to be a fair estimate of the cost of delivering power to Thorold."

We have been informed by the Accountant of the Commission that the Engineers and Accountants are now, endeavoring to ascertain the cost of power to the Ontario Power Company of Niagara Falls, in order that the Town of Thorold may be charged with the cost of power

as provided for in the agreement dated December 20, 1920. The form of this agreement is, in general, the same as those used in connection with the Niagara System, relative to the supply of electrical power to municipalities.

For your information the following analysis is given of the revenue from sale of power to the Commission's customers for the year ending October 31, 1921, and for the 10 months ending August 31, 1922:

Customers	Year ending October 31, 1921 Rate Per H.P. or K.W.H.*	Amount	10 months ending August 31, 1922 Rate Per H.P. or K.W.H.*	Amount
Doheny, Quinlan & Robertson, Limited	$37.00	$62,497.73	$37.00	$29,923.24
Provincial Paper Mills Limited (2 meters)	.004*) .008*)	5,639.60	.004*) .008*)	4,038.77
Pilkington Bros.Ltd.	18.00	3,653.22	17.50	4,604.89
Thompson & Son	12.00 .0200*) .0140*) .0015*)	202.13	12.00 .0200*) .0140*) .0015*)	251.35
Department of Railways & Canals P.Lyall & Sons, Construction Company	-		37.00	5,620.73
W. A. Gardner & Co.	20.00	100.00	5.00 -	35.75 -
T. Critelli & Co.	20.00	99.96	20.00	83.30
The Dextrine Company	20.00	99.96	20.00	83.30
Municipality of Thorold	22.25	6,983.72	22.25	6,981.63
Total		$79,275.32		$51,622.96

Doheny, Quinlan & Robertson, Limited, contractors on the Welland Ship Canal, were furnished power by the Commission from July 1, 1920, at a rate of $37.00 per horse power, and as from May 1, 1922, the Department of Railways and Canals, for which these contractors were acting, was directly charged for the power furnished for the Welland Canal. A further change was made in respect of this account, and as

from July 1, 1922, power was supplied to P. Lyall & Sons, Construction Company (acting for the Department of Railways & Canals) directly by the Commission, at a rate of $37.00 per horse power. An additional load of 21.4 horse power per month is supplied by the Commission through Pilkington Bros. to Lyall & Sons, for which the Commission charge the latter $5.00 per horse power as a transformation charge, which will be paid over to Pilkington Bros. for use of their transformers.

During the time of service to Doheny, Quinlan & Robertson, Limited, and to the Department of Railways & Canals, we have been informed, no contracts were in force, and while charges were made for electrical power as set forth in the above summary consideration is now being given to granting allowances, to be retroactively applied over the period of service, but the amounts of such allowances have not as yet been definitely determined. In this connection it should be mentioned that such an adjustment will, of course, reduce the amount of surplus estimated by the Accountant of the Commission for the fiscal year ending October 31, 1922, at approximately $24,000. While such an adjustment, if made, would be largely applicable to prior periods there remains no balance in the surplus account at the close of the fiscal year ending October 31, 1921, against which the proportion of the adjustment may be charged, as transfer of the entire surplus as at that date was made to the Sinking Fund Reserve Account.

The P. Lyall & Sons Construction Company, Limited, as stated above, is acting for the Department of Railways & Canals, and is carrying on a business of contracting on the Welland Ship Canal in the Counties of Lincoln and Welland. Under date of October 19, 1922, the Construction Company entered into two agreements with the Commission

for the supply of electrical power and energy, the more important accounting features of which are given in the following:

Contract for 1119 Kilowatts of Electrical Power-

This contract provides for the reserving for and delivering to the Construction Company of 1119 kilowatts of electrical power with provisions for additional power up to a maximum of 2238 kilowatts, payment to be made on a schedule or rate "based on a ten minute integrated demand of ninety per cent minimum power factor as provided for" in the agreement at the rate of $24.00 per horse power per annum; power to be purchased exclusively from the Commission for the term of the agreement; the Company to pay each month to the Commission as a minimum for 75% of the power held in reserve with certain exceptions, as to delivery of power by the Commission, due to strikes, riot, fire, etc.

"Where a differential or kilowatt hour rate is specified in the agreement and when no kilowatt hours are used during any month, the minima provided for herein shall apply only to the service charge portion of said rate."

All payments in arrears shall bear interest at the legal rate.

The agreement shall extend for a period of one year, beginning on the day power is first taken thereunder and may be extended for five further terms of one year each, upon mutual agreement of both parties.

Contract for 746 Kilowatts of Electrical Power-

This contract provides for the reserving for and delivering to the Construction Company, 746 kilowatts of electrical power, with further provisions for additional power up to a maximum of 1492 kilowatts, payment to be made at a rate of $21.00 per horse power per annum; power to be purchased exclusively from the Commission for the term of the agreement.

It is further stipulated in the agreement that the Company shall pay the Commission as a minimum for 75 per cent. of the power held in reserve at the rates and according to the restrictions set forth in the agreement.

Where a differential or kilowatt hour rate is specified and when no kilowatt hours are used during any month, the minima provided for in the agreement shall apply only to the service charge portion of said rate.

The manner in which the kilowatt or kilovolt amperes shall be determined is provided for.

The agreement shall extend for a period of one year and may be extended for five further terms of one year each upon the mutual agreement of both parties.

The power supplied to Pilkington Bros., as from September 1921, has been at a rate of $17.50 per horse power. Included in the revenue of $4,604.89 from this customer for the ten months ending August 31, 1922, is an amount of $1,309.64 representing an adjustment of horse power loads for the period from June 1919 to May 1922, increasing the amounts previously billed.

The electrical power, as mentioned, is purchased for this System from the Ontario Power Company of Niagara Falls, and the quantities, rates and amounts paid for power from the inception of the system to August 31, 1922, the latest date the accounts have been closed, are as follows:

Particulars	Average H.P. Annual Basis		Rate per H.P.	Amount
Eleven months ending October 31,1919- (on annual basis)				
	718.	@	13.00	- $ 9,333.83
	73.	@	17.00	1,241.00
	75.3	@	13.50	1,016.91
Total	866.3			$11,591.74
Year ending October 31,1920-				
	744.25	@	13.00	9,675.25
	202.	@	17.00	3,434.00
	170.01	@	13.50	2,296.40
Total	1116.26			$15,405.65
Year ending October 31,1921-				
	739.75	@	13.00	9,616.75
	1138.6	@	17.00	19,363.29
	207.42	@	13.50	2,800.17
Total	2082.77			$31,780.21
Ten months ending August 31,1922- (on annual basis)				
	633.6	@	13.00	8,237.33
	584.1	@	17.00	9,930.33
	153.2	@	13.50	2,068.10
Total	1370.9			$20,235.76

The power furnished Pilkington Bros. is billed to the Commission by the Ontario Power Company at $13.50 per horse power based on the agreement with that company, dated April 29, 1912.

In respect of the rate of $17.00 per horse power charged the Thorold System by the Ontario Power Company, as set forth above, the authority of the Accounting Department for the rate is based on a memorandum under date of December 22, 1919, written by the Chief Engineer to the Accounting Department. Mention is made in the memorandum of a tentative charge for power delivered to the Thorold System in accordance with an invoice from the Ontario Power Company in which, in addition to the $13.00 rate and the $13.50 rate a $17.00 rate is shown. The following excerpt is given from that memorandum-

> "Some adjustment of this account may be required at a later date, when the rate for power taken in excess of the contract has been definitely fixed."

The Accountant of the Commission has prepared monthly, on an estimated basis, Operating Accounts for the ten months ending August 31, 1922. The estimates are, in the main, in respect of charges for renewals and for sinking fund and, we believe the accounts have been prepared on a sound basis and that the details do not call for any explanation. We would state, however, that subject to the annual adjustment (which will be given effect to as at October 31, 1922) the excess of revenue over expenses amounts to, approximately, $24,000, for the period of ten months ending August 31, 1922.

GENERAL

Since the reserves accumulated through specific provisions and by transfer of surplus are approximately sufficient to extinguish the intangible values included in the property account, and since the cash funds of the system held by the Commission are now considerably in excess of the sinking fund requirements, without further additions being made thereto, we are of the opinion that consideration should be given to the advisability of merging this System into the Niagara System. In this connection it may be of interest to note that the sum of $24,367.37 on deposit in a sinking fund as at December 1, 1922, would with 4% interest additions amount to the par value of the $100,000.00 debentures at their maturity on December 1, 1958. This figure of $24,367.37 is merely stated for comparison with the cash amounting to $55,979.20 in the hands of the Commission as at October 31, 1921 and without taking into account the amount by which the cash balance would be increased through realization of the $8,907.46 of accounts receivable owing on that date.

In making the suggestion relative to merging this System with the Niagara System we are assuming that there are no legal difficulties which would prevent such a merger.

* * * * *

We shall be pleased to furnish such further information as you may desire relative to the accounts of this System.

Yours very truly,

C. Rick Watchorn & Co.

Exhibit I

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

THOROLD SYSTEM

COMPARATIVE BALANCE SHEETS

	December 1	Year ending October 31		
ASSETS	1918	1919	1920	1921
Capital Assets:				
Transmission and Distribution System, Contracts, Franchises and Goodwill	$100,000.00	100,381.86	100,772.57	101,331.09
Current and Working Assets:				
Accounts Receivable	-	6,140.48	7,555.26	8,907.46
Hydro-Electric Power Commission of Ontario (Moneys held by the Commission for the account of the System)	-	458.44	10,817.01	55,979.20
	$100,000.00	106,980.78	119,144.84	166,217.75
LIABILITIES				
Hydro-Electric Power Commission of Ontario Debentures issued by Commission to cover purchase price of System	$100,000.00	100,000.00	100,000.00	100,000.00
Reserves:				
For Sinking Fund	-	1,758.39	3,746.97	63,397.96
For Renewals	-	830.07	1,795.84	2,819.79
Surplus	-	4,392.32	13,602.03	-
	$100,000.00	106,980.78	119,144.84	166,217.75

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

THOROLD SYSTEM - OPERATING ACCOUNT

Particulars	Eleven Months ending October 31,1919	Year ending October 31 1920	1921
Revenue from Sales of Power-			
Commercial	$20,581.49	29,806.30	72,292.60
Municipality of Thorold (interim rate of $22.25 per h.p.)			6,982.72
	$20,581.49	29,806.30	79,275.32
Cost of Operating, including portion of Administrative Expenses-			
Power purchased from the Ontario Power Company	$11,591.74	15,405.65	31,720.21
Operating	1,777.73	1,409.51	659.30
Maintenance	62.05	581.85	302.04
Total Expenses	$13,431.52	17,397.01	32,681.55
Profit before deducting Fixed Charges, etc.	$ 7,149.97	12,409.29	46,593.77
Deduct Fixed Charges-			
Interest	$ 3,671.45	3,859.50	3,517.40
Provision for Renewals	830.07	932.57	952.12
Provision for Sinking Fund	1,758.39	1,918.25	1,932.23
Total Fixed Charges	$ 6,259.91	6,710.32	6,401.75
Balance	890.06	5,698.97	40,192.02
Add-			
Commissions (or Royalties) received from the Ontario Power Company of Niagara Falls on power sold by it to power customers in Thorold District	3,502.26	3,510.74	3,774.83
Net profit	$ 4,392.32	9,209.71	43,966.85
Surplus brought forward from preceding period	-	4,392.32	13,602.03
Surplus	$ 4,392.32	13,602.03	57,568.88
Less - Appropriated for the purpose of providing additional sinking fund reserve against the valuation in respect of contracts, franchises and goodwill, included in the capital asset account of the System	-	-	57,568.88
Balance as per Balance Sheet	$ 4,392.32	13,602.03	-

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

THOROLD SYSTEM

Copy of Agreement, dated October 1, 1918 between James Battle (hereinafter called the Vendor) and The Hydro-Electric Power Commission of Ontario (hereinafter called the Commission)

Whereas the Vendor is engaged in the business of distributing in the Township of Thorold, and Town of Thorold, County of Welland, electrical energy for the purpose of light, heat and power and the Vendor has agreed to sell to the Commission, the freehold and leasehold lands of the Vendor, together with the plant, machinery, contracts, franchises, easements, licenses and agreements hereinafter referred to and his light, heat and power business as aforesaid as a going concern.

Now this Agreement witnesseth as follows-

Section One; The Vendor shall sell and the Commission shall purchase all the property, assets and undertakings of every kind and nature of the Vendor in connection with his electrical business as the same existed on the Seventeenth day of October 1917, as follows:

(a) The good will of the said business.

(b) All the freehold and leasehold lands, easements and interest in land owned by the Vendor and used in connection with the said business.

(c) All the plant, machinery, furniture, patents, licenses, franchises, stock-in-trade, stores, goods, chattels, property and effects to which the Vendor is entitled or which are in use by the Vendor or to which the Vendor is in any way interested in connection with the said business.

(d) The franchises, contracts and engagements of the Vendor, as set out in schedule "A" hereto attached and forming part of this agreement, together with all the rights of the Vendor thereunder and the full benefit thereof and all other pending contracts and engagements or existing franchises to which the Vendor is or may be entitled in connection with his said business.

(e) All the other property of whatsoever nature to which the Vendor is entitled in connection with the said business, except all the Vendor's cash, promissory notes, book obligations and other bills and accounts receivable to which the Vendor is entitled on the first day of December 1918.

Section Two: From the property hereinbefore described the Vendor excepts and reserves the following properties which are not hereby sold or agreed to be sold to the Commission, namely:

All the bare copper wire, which was obtained by the Vendor in his dealings with the Confederation Construction Company.

Section Three: The consideration for the sale transferred and delivered hereunder shall be One Hundred Thousand Dollars ($100,000.00) and shall be paid and satisfied as follows:

The said sum of One Hundred Thousand Dollars ($100,000.00) by the delivery to the Vender of the debentures of the Purchaser guaranteed as hereinafter provided for, of the par value of One Hundred Thousand Dollars ($100,000.00) bearing the date hereinafter fixed for completion, in denominations of One Thousand Dollars ($1,000.00) each, payable Forty Years from the date of issue and bearing interest at the rate of four per cent (4%) payable half-yearly.

Section Four: All the debentures referred to in Section Three hereof shall be payable both as to principal and interest at the Chief Office of the Bank of Montreal, at Toronto, and shall be in the words and figures following:

DOMINION OF CANADA
THE HYDRO-ELECTRIC
POWER COMMISSION OF
ONTARIO

No. JAMES BATTLE ISSUE No.

Four Per Cent Forty Year Gold Debentures

The Hydro-Electric Power Commission of Ontario, (hereinafter called "The Commission") for value received hereby promises to pay to the bearer, or if registered to the registered holder hereof, on the first day of December 1958, on presentation and surrender of this debenture, the sum of One Thousand Dollars at the Chief Office of the Bank of Montreal, in Toronto, Canada, with interest thereon until paid, at the rate of four per centum per annum, payable half-yearly on the first day of June and the first day of December in each year, on presentation and surrender of the interest coupons hereto annexed as they severally become due: each payment of principal and interest to be made in gold coin of the Dominion of Canada of the present standard of weight and fineness, or its equivalent.

This debenture shall pass by delivery, but may be registered as to principal in the name of the holder in a register which shall be kept by the Commission at its office in Toronto, Canada, in which case it can only be transferred by an instrument in writing signed by the registered holder or his lawful attorney and registered in the said register. A transfer to bearer may subsequently be registered, after which this debenture shall be transferable by delivery alone until again registered in the name of the holder. Notwithstanding registration, interest coupons shall continue payable to bearer.

This debenture is issued under the authority of an Act of the Legislative Assembly of the Province of Ontario, entitled The Power Commission Act, 1917, and being Chapter 20 of the Statutes of Ontario (1917) passed in the seventh year of the reign of His Majesty King George V.

In witness whereof, the Commission has caused its Corporate Seal to be hereunto affixed and this debenture to be signed by its Chairman and countersigned by its Secretary this first day of December 1918.

Secretary. Chairman.

And the said debenture shall have attached thereto coupons covering the respective payments of interest, from the date thereof until the maturity of the said debenture, in the words and figures following.

JAMES BATTLE ISSUE

THE HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO will pay to the bearer on the day of $ _____ Dollars at the Chief Office of the Bank of Montreal in Toronto, Canada, such payment to be made in gold coin of the Dominion of Canada of the present standard of weight and fineness or its equivalent and being the half year interest on debenture.

Payable on the day of 1958
Coupon No. No.
Dated the day of 1918.

Secretary.

The signature of the Chairman of the Commission may be written, lithographed or engraved on each of the said debentures and the signature of the Secretary of the Commission may be lithographed, printed or engraved on each of the said coupons and such signatures shall for all purposes be deemed to be the signatures of the Chairman and Secretary.

The Commission shall take all necessary legal steps to have the payment of said debentures, both principal and interest, guaranteed by the Province of Ontario, according to law, which guarantee shall be in the words and figures following:

GUARANTEE OF THE PROVINCE OF ONTARIO

By virtue of powers conferred by the Legislature of the Province of Ontario, Canada, the Province of Ontario hereby guarantees to the holder of the within bond for the time being and to the holder for the time being of any of the coupons attached thereto, due payment of the principal of the within debenture and of the interest thereon, according to the tenor of the said debenture and of the coupons attached thereto.

Assistant Treasurer of Ontario

Section Five: The assets and undertakings hereby sold are to be free from all liens, charges or incumbrances, but as regards leaseholds subject to the rents and covenants contained in any leases under which the same are held, and as regards all Municipal Franchises, subject to the obligations therein expressed to be performed or done after the date herein fixed for completion. Should it happen that at the date herein fixed for completion the Vendor is unable to satisfy any liens, charges or incumbrances on the property sold, or any portion thereof, the Vendor agrees that the Commission, as a guarantee for the due payment and discharge for such liens, charges or incumbrances by the Vendor, may retain an amount of the said debentures of the Commission equal to one hundred and fifty (150)

per centum of the principal of said liens, charges or incumbrances as of the date hereinafter provided for the completion of the purchases, to protect the Commission against any loss due to the Vendor not satisfying and discharging any of said liens, charges or incumbrances as the same become due and payable, together with any interest thereon and any costs, damage or expenses which the Commission may be compelled to pay by reason of the Vendor's default.

Section Six: As the balance of the consideration, the Commission shall assume the contracts and agreements of the Vendor in connection with this said business, a list of which is hereto attached as Schedule "A", it being understood, however, that the Commission shall assume only such obligations in connection with the said contract as may be within the power of the Commission under the Power Commission Act of Ontario and amendments thereto.

Section Seven: The Vendor shall transfer, assign, surrender and give up to the Commission the franchises and agreements in Schedule "A" hereto referred to, and the full benefit thereof and all rights of whatever nature enjoyed by the Vendor or to which the Vendor may be entitled under any such franchises, agreements and the right to use and occupy highways or any portion of the same within the limits of the said Township of Thorold, in the Province of Ontario, and the right to furnish electric light, heat, power and energy to any inhabitant thereof or to any person, firm or corporation within the said limits of the Township of Thorold, or the Town of Thorold, so as to confer upon the Commission the full right and authority to carry on the business of supplying electric light, heat, power or energy as fully and effectually as the Vendor has heretofore carried on the said business within the said Township of Thorold, and the Town of Thorold.

Section Eight: The purchase shall be completed at the office of the Hydro-Electric Power Commission of Ontario, 190 University Avenue, Toronto, Ontario, on the first day of December, 1918, when possession of the premises shall as far as practicable be given to the Commission, and the Vendor shall execute and deliver to the Purchaser, due and proper conveyances, transfers and assignments of all property and rights hereby sold by the Vendor to the Commission and the consideration shall be paid and satisfied save the retention by the Commission of such part of the debentures as may be necessary to secure the due discharge of any liens, charges or incumbrances as hereinbefore provided and thereafter the Vendor and all necessary parties shall at the expense of the Commission execute and do all assurances and things as may be necessary to vest the said premises in the said Commission and giving to the Purchaser the full benefit of this agreement as may be reasonably required.

This Agreement shall be binding upon the successors and assigns hereto.

In Witness Whereof, the parties hereto have hereunto caused these presents to be signed by their proper officers on their behalf and their respective Corporate Seals to be affixed hereto.

Exhibit III
cont'd

SCHEDULE "A"

LIST OF FRANCHISES, AND OTHER AGREEMENTS,
TO BE ATTACHED TO THE AGREEMENT BETWEEN

JAMES BATTLE OF - THOROLD, ONTARIO,

and

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO,

_____1918.

1-	St. Lawrence Paper Mills Co., Limited	Date, June 30/13.
2-	Wm. C. Wilson & Company,	" March 25/14.
3-	The Dextrine Company,	" March 1/16.
4-	J. A. Constable,	" May 1/16.
5-	Pilkington Bros., Limited,	" August 1/13.
6-	Thos. Critelli,	" July 1/14.
7-	Thompson & Son	" Nov. 18/13.
8-	Gardner & Company	" April 1/17.
9-	Ontario Power Company	" Oct. 24/10.
10-	Ontario Power Company (Supplementary agreement)	" April 29/12.
11-	The Ontario Transmission Co., Limited,	" Nov. 26/12.
	(Bill of Sale - JAMES BATTLE to the - ONTARIO TRANSMISSION CO., LIMITED)	

HYDRO-ELECTRIC POWER COMMISSION OF ONTARIO

THOROLD SYSTEM

Excerpts from Agreement dated December 20, 1920 between the Hydro-Electric Power Commission of Ontario and the Municipal Corporation of the Town of Thorold.

Whereas: the City of Toronto and other Municipalities named in Column 1 of the schedule of the agreement dated 4th May, 1908, hereto attached and marked "A", have agreed with the Commission for a supply of power from Niagara Falls.

And whereas the Corporation under the provisions of the Power Commission Act and amendments thereto, Revised Statutes of Ontario, Chapter 39, has applied to the Commission for a supply of power, and has passed a By-Law No. 690 passed the 14th day of December 1920, to authorize the execution of an agreement therefor.

Now this indenture witnesseth that in consideration of the premises the Commission agrees to supply to the Corporation seven hundred and fifty (750) horse power of Electrical power upon the terms and conditions set forth in said agreement of 4th May 1908, and the Corporation agrees with the Commission upon the said terms and conditions therein set out. Provided that the said terms and conditions may be modified pursuant to Paragraph 11 of the said agreement, but subject to such modifications the Corporation shall be deemed to have been a party to the said agreement, and the figures set forth in the columns of the schedule of the said agreement hereto attached opposite the name of the Town of Thorold shall be deemed to have been inserted therein at the date thereof.

In witness whereof the Commission and the Corporation have respectively affixed their Corporate Seals and the hands of their proper officers.

NOTE:

Excerpts from the Agreement of May 4, 1908 are attached to the Report on the Investigation of Accounts of the Niagara System, dated October 9, 1922.

HYDRO-ELECTRIC POWER CORPORATION OF ONTARIO

TEMISCO STORE

Excerpts from Agreement dated December 16, 1920 between the Hydro-Electric Power Commission of Ontario and the Municipal Corporation of the Town of Iroquoi.

Whereas the City of Toronto and other Municipalities named in Column 1 of the schedule of the agreement dated 6th May, 1908, hereto annexed and marked "A", have agreed with the Commission for a supply of power from Niagara Falls.

And whereas the Corporation under the provisions of the Power Commission Act and amendments thereto, Revised Statutes of Ontario, Chapter 50, has applied to the Commission for a supply of power, and has passed a By-law No. 880 passed the 14th day of December 1920, re matters the execution of an agreement therefor.

The said Commission acknowledgeth that in consideration of the premises the Commission agrees to supply to the Corporation seven hundred and fifty (750) horse power of Electrical power upon the terms and conditions set forth in said agreement of 6th May 1908, and the Corporation agrees with the Commission upon the said terms and conditions thereto set out. Provided that the said terms and conditions may be modified pursuant to Paragraph 11 of the said agreement, but subject to such modifications the Corporation shall be deemed to have been a party to the said agreement, and the figures set forth in the columns of the schedule of the said agreement hereto attached opposite the name of the Town of Iroquoi shall be deemed to have been inserted therein at the date thereof.

In witness whereof the Commission and the Corporation have respectively affixed their Corporate Seals and the hands of their proper officers.

NOTE:

Excerpts from the Agreement of May 4, 1908 are attached to the Report on the Investigation of Amounts of the Niagara System, dated October 8, 1921.